

**SPIRIT LAKE COMMUNITY FIRE DEPARTMENT
SPIRIT LAKE, IOWA
INDEPENDENT AUDITORS' REPORTS
FINANCIAL STATEMENTS AND
SCHEDULE OF FINDINGS
JUNE 30, 2008 AND 2007**

SPIRIT LAKE COMMUNITY FIRE DEPARTMENT

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SPIRIT LAKE COMMUNITY FIRE DEPARTMENT

OFFICIALS

<u>NAME</u>	<u>TITLE</u>	<u>REPRESENTING</u>
(From July 1, 2006 through December 31, 2006)		
Lynn Wallace	President until 11-2006	Township of Lakeville
Dale Palmberg	Vice-President until 11-2006	City of Orleans
	President from 12-2006	
Ed McClurg	Secretary/Treasurer	Township of Spirit Lake
Clyde Ihrke	Member	City of Spirit Lake
Kevin Bice	Member	City of Spirit Lake
Evonne Swanson	Member	Township of Center Grove
Linda Voss	Member from 12-2006	Township of Lakeville

(From January 1, 2007 through June 30, 2007)

Dale Palmberg	President	City of Orleans
Clyde Ihrke	Vice-President	City of Spirit Lake
Ed McClurg	Secretary/Treasurer	Township of Spirit Lake
Kevin Bice	Member until 2-2007	City of Spirit Lake
Sarah Frerichs	Member from 3-2007	City of Spirit Lake
Evonne Swanson	Member until 2-2007	Township of Center Grove
Wally Jorgensen	Member from 3-2007	Township of Center Grove
Linda Voss	Member	Township of Lakeville

(From July 1, 2007 through December 31, 2007)

Dale Palmberg	President	City of Orleans
Clyde Ihrke	Vice-President	City of Spirit Lake
Ed McClurg	Secretary/Treasurer	Township of Spirit Lake
Sarah Frerichs	Member	City of Spirit Lake
Wally Jorgensen	Member	Township of Center Grove
Linda Voss	Member	Township of Lakeville

(From January 1, 2008 through June 30, 2008)

Dale Palmberg	President	City of Orleans
Clyde Ihrke	Vice-President	City of Spirit Lake
Ed McClurg	Secretary/Treasurer	Township of Spirit Lake
Kevin Bice	Member	City of Spirit Lake
Wally Jorgensen	Member	Township of Center Grove
Linda Voss	Member	Township of Lakeville

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INDEPENDENT AUDITORS' REPORT

To the Members of the
Spirit Lake Community Fire Department
Spirit Lake, IA 51360

We have audited the accompanying statements of cash receipts, disbursements, and changes in cash basis net assets of the Spirit Lake Community Fire Department for the years ended June 30, 2008 and 2007. These financial statements are the responsibility of the Department's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, these financial statements are prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

The Department has not included the receipts, disbursements, and cash balances of the Spirit Lake Volunteer Fire Department and the Spirit Lake First Responders in the financial statements. These organizations are not separate legal entities. Accounting principles generally accepted in the U.S. require that all funds, organizations, agencies, boards, commissions, and authorities be included in the financial statements. The effect of this departure has not been determined.

In our opinion, except for the effects of the omission described in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the cash basis financial position of the Spirit Lake Community Fire Department as of June 30, 2008 and 2007 and the changes in its cash basis financial position for the years then ended in conformity with the basis of accounting described in Note 1.

In accordance with *Government Auditing Standards*, we have also issued our report dated July 6, 2009 on our consideration of the Department's internal control over financial reporting and our tests of its compliance with certain provision of laws, regulations, contracts, grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Department has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insight on that information that the Government Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Winter, Steve H. LLP

July 6, 2009

FINANCIAL STATEMENTS

SPIRIT LAKE COMMUNITY FIRE DEPARTMENT
STATEMENTS OF CASH RECEIPTS, DISBURSEMENTS, AND
CHANGES IN CASH BASIS NET ASSETS
FOR THE YEARS ENDED JUNE 30, 2008 AND 2007

	<u>2008</u>	<u>2007</u>
OPERATING RECEIPTS:		
City and township contributions	\$134,172	\$194,118
Refunds and reimbursements	5,704	821
TOTAL OPERATING RECEIPTS	<u>139,876</u>	<u>194,939</u>
OPERATING DISBURSEMENTS:		
Administrative net wages	9,420	8,681
Part-time firefighters net wages	6,232	5,378
Payroll tax deposits	2,677	1,931
Volunteer fire department reimbursements	29,794	21,603
Training and other administration expenses	6,531	6,081
Building and grounds	12,571	7,746
Utilities	8,189	9,685
Professional fees		8,100
Insurance	21,789	23,578
Vehicle operations	21,732	7,656
Repairs and supplies	7,374	9,391
First responders	1,672	3,707
Telephone	<u>1,569</u>	<u>1,414</u>
TOTAL OPERATING DISBURSEMENTS	<u>129,550</u>	<u>114,951</u>
EXCESS OF OPERATING RECEIPTS OVER OPERATING DISBURSEMENTS	<u>10,326</u>	<u>79,988</u>
NON-OPERATING RECEIPTS (DISBURSEMENTS):		
Interest on investments	1,164	166
Grants and contributions	3,500	4,250
Loan payments:		
Principal	(38,351)	(35,711)
Interest	(6,429)	(9,784)
Equipment purchases	<u>(18,336)</u>	<u>(18,458)</u>
TOTAL NON-OPERATING DISBURSEMENTS - NET	<u>(58,452)</u>	<u>(59,537)</u>
CHANGE IN CASH BASIS NET ASSETS	(48,126)	20,451
CASH BASIS NET ASSETS - BEGINNING OF YEAR	<u>146,103</u>	<u>125,652</u>
CASH BASIS NET ASSETS - END OF YEAR	<u>\$ 97,977</u>	<u>\$146,103</u>
CASH BASIS NET ASSETS:		
Unrestricted	<u>\$ 97,977</u>	<u>\$146,103</u>

SPIRIT LAKE COMMUNITY FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2008 AND 2007

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The Spirit Lake Community Fire Department was formed in 1985 pursuant to the provisions of Chapter 28E of the Code of Iowa. The purpose of the Department is for fire protection and aid and assistance for other emergencies or disasters relating to life or property to the units of government which are members of the Department.

The governing body of the Department is composed of three representatives from the four member townships and three representatives from the two member cities. The Department members are Lakeville, Diamond Lake, Spirit Lake, and Center Grove Townships of Dickinson County and the Cities of Spirit Lake and Orleans.

Reporting Entity

For financial reporting purposes, the Spirit Lake Community Fire Department has included all funds, organizations, agencies, boards, commissions, and authorities with the exception of the Spirit Lake Volunteer Firemen and the Spirit Lake First Responders (see Item I-B-08 in the Schedule of Findings). The Department has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the Department are such that exclusion would cause the Department's financial statement to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the Department to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the Department. The Department has no component units which meet the Governmental Accounting Standards Board criteria.

Basis of Presentation

The accounts of the Department are organized as an Enterprise Fund. Enterprise Funds are utilized to finance and account for the acquisition, operation, and maintenance of governmental facilities and services supported by user charges.

Enterprise Funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with an Enterprise Fund's principal outgoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

Basis of Accounting

The Spirit Lake Community Fire Department maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the Department are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present the financial position and results of operations of the Department in accordance with U.S. generally accepted accounting principles.

SPIRIT LAKE COMMUNITY FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2008 AND 2007

2. CASH AND INVESTMENTS

The Department's deposits in banks at June 30, 2008 and 2007 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The Department is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Department; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. The Department has not formally adopted an investment policy.

The Department had no investments meeting the disclosure requirements of Governmental Accounting Standards Board Statement No. 3, as amended by Statement No. 40.

3. RISK MANAGEMENT

The Spirit Lake Community Fire Department is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by commercial insurance. The Department assumes liability for any deductibles and claims in excess of coverage limitation. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

SPIRIT LAKE COMMUNITY FIRE DEPARTMENT
NOTES TO FINANCIAL STATEMENTS - Continued
JUNE 30, 2008 AND 2007

4. NOTES PAYABLE

The Department has a note payable to a bank, secured by a fire truck. The original amount of the note was \$365,000. The balance outstanding was \$132,661 and \$156,012 at June 30, 2008 and 2007, respectively. This note is payable in yearly installments of \$29,780 including interest at 4% through the year ending June 30, 2013.

The Department also has a note payable to the State of Iowa, secured by a fire truck. The original amount of the note was \$150,000. The balance outstanding was \$120,000 and \$135,000 at June 30, 2008 and 2007, respectively. This note is payable in equal semi-annual installments of \$7,500 through the year ending June 30, 2016. The note is interest free.

Annual debt service requirements to maturity for the above notes are as follows:

<u>Year Ending June 30,</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2009	\$ 39,401	\$ 5,379	\$ 44,780
2010	40,568	4,212	44,780
2011	41,472	3,308	44,780
2012	42,531	2,249	44,780
2013	43,689	1,091	44,780
2014 - 2016	<u>45,000</u>	<u> </u>	<u>45,000</u>
Total	<u>\$252,661</u>	<u>\$ 16,239</u>	<u>\$268,900</u>

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INDEPENDENT AUDITORS' REPORT
ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Members of
Spirit Lake Community Fire Department
Spirit Lake, IA 51360

We have audited the accompanying financial statements of the Spirit Lake Community Fire Department as of and for the years ended June 30, 2008 and 2007 and have issued our report thereon dated July 6, 2009. Our report expressed a qualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Department's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements but not for the purpose of expressing our opinion on the effectiveness of the Department's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the Department's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies including a material weakness.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affect the Department's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the Department's financial statement that is more than inconsequential will not be prevented or detected by the Department's internal control. We consider the deficiencies in

internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies that results in more than a remote likelihood a material misstatement of the financial statement will not be prevented or detected by the Department's internal control.

Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe, of the significant deficiencies referred to above, item I-A-08 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the financial statements of the Spirit Lake Community Fire Department are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

Comments involving statutory and other legal matters about the Department's operations for the years ended June 30, 2008 and 2007 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the Department. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The Department's written responses to findings identified in our audits are described in the accompanying Schedule of Findings. While we have expressed our conclusions on the Department's responses, we did not audit the Department's responses and, accordingly, we express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the members and customers of the Spirit Lake Community Fire Department and other parties to whom the Department may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the Department during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

A handwritten signature in black ink, appearing to read "Wenther, Steve H. Kott". The signature is written in a cursive, flowing style.

July 6, 2009

SPIRIT LAKE COMMUNITY FIRE DEPARTMENT
SCHEDULE OF FINDINGS

Part I: Findings Related to the Financial Statements

Significant Deficiencies:

- I-A-08 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. We noted that one person has primary control over receipt collection, posting, deposit preparation, cash disbursements, and reconciling.

Recommendation - We realize that with a limited number of office employees segregation of duties is difficult. However, the Department should review its operating procedures to obtain the maximum internal control possible under the circumstances.

Response - The Board of Spirit Lake Community Fire Department consists of six members. The previous Secretary-Treasurer for the Board is now deceased and has been replaced by another member. The Board has made adjustments to their handling of monthly bills and also to the bank accounts of the Board. We now have 3 Board members as signers on the accounts and a verbal agreement that either Dale Palmberg or Wallie Jorgensen will sign the payroll check for the third member, Linda Voss for her work as Secretary-Treasurer each month. Quarterly reports on budget status has been implemented and an annual bank report will be presented at the July meeting following the end of the fiscal year.

Conclusion - Response accepted. The Department should continue to evaluate procedures to obtain the maximum internal control possible.

- I-B-08 Separately Maintained Records - The Spirit Lake Volunteer Firemen and the Spirit Lake First Responders maintain separate accounting records pertaining to their operations. The financial transactions and resulting balances are not included in the Department's accounting records.

Recommendation - The Department is funded largely by public funds. The Department is obligated to account for all public funds collected, received, and expended. For better accountability and financial and budgetary control, the financial activity and balances of all accounts should be included in the Department's accounting records and reported to the Department on a monthly basis.

Response - The Board will follow this recommendation for the year ending June 30, 2009.

Conclusion - Response accepted.

SPIRIT LAKE COMMUNITY FIRE DEPARTMENT
SCHEDULE OF FINDINGS - Continued

Part I: Findings Related to the Financial Statements - Continued

- I-C-08 Stolen Accounting Records - The records for the fiscal year ending June 30, 2007 were stolen. The Department has recreated bank statements and minutes of meetings but has not obtained copies of all vendor invoices for bills paid.

Recommendation - We recommend the Department obtain copies of all stolen records, including copies of vendor invoices.

Response - The Board will take this comment under consideration.

Conclusion - Response accepted.

Instances of Noncompliance:

No matters were noted.

Part II: Other Findings Related to Statutory Reporting

- II-A-08 Questionable Expenses - We noted no expenses that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-B-08 Travel Expense - No expenditures of money for travel expenses of spouses of Department officials were noted.

- II-C-08 Board Minutes - No transactions were found that we believe should have been approved in the Department minutes but were not.

- II-D-08 Deposits and Investments - No instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa were noted. We did note that the Department has not formally adopted an investment policy.

Recommendation - We recommend the Department adopt an investment policy.

Response - The Board will take this comment under consideration.

Conclusion - Response accepted.